

# QUARTERLY REPORT

LICENSEE

HARRAH'S CASINO HOTEL , ATLANTIC CITY

ADDRESS

777 HARRAH'S BLVD.

ATLANTIC CITY, N.J. 08401

**FOR THE QUARTER ENDED SEPTEMBER 30, 2004**

**TO THE**

**CASINO CONTROL COMMISSION**

**OF THE**

**STATE OF NEW JERSEY**

NAME OF OFFICER IN  
CHARGE OF  
CORRESPONDENCE  
REGARDING THIS  
QUARTERLY REPORT

**ANTHONY P. RODIO**

OFFICIAL TITLE

VICE PRESIDENT OF FINANCE AND ADMINISTRATION

ADDRESS

777 HARRAH'S BLVD.

ATLANTIC CITY, N.J. 08401

TRADING NAME OF LICENSEE **HARRAH'S CASINO HOTEL, ATLANTIC CITY**

**BALANCE SHEETS**

AS OF SEPTEMBER 30, 2004 AND 2003

(UNAUDITED)  
(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2004 (c)	2003 (d)
	<b>ASSETS</b>		
	Current Assets:		
1	Cash and Cash Equivalents .....	\$ 30,315	\$ 30,189
2	Short-Term Investments.....	0	0
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2004, \$890; 2003, \$999).....	7,150	6,027
4	Inventories (Note 2).....	1,299	1,340
5	Prepaid Expenses and Other Current Assets (Note 4).....	7,962	7,575
6	Total Current Assets.....	46,726	45,131
7	Investments, Advances, and Receivables (Note 5 and 11).....	492,876	443,563
8	Property and Equipment - Gross (Notes 2 and 6).....	811,383	787,936
9	Less: Accumulated Depreciation and Amortization (Notes 2 and 6).....	(311,958)	(299,769)
10	Property and Equipment - Net (Note 2 and 6).....	499,425	488,167
11	Other Assets (Note 7).....	8,682	10,702
12	Total Assets.....	\$ 1,047,709	\$ 987,563
	<b>LIABILITIES AND EQUITY</b>		
	Current Liabilities:		
13	Accounts Payable.....	\$ 3,224	\$ 1,959
14	Notes Payable.....	0	0
	Current Portion of Long-Term Debt:		
15	Due to Affiliates.....	0	0
16	Other.....	0	0
17	Income Taxes Payable and Accrued (Note 2).....	0	0
18	Other Accrued Expenses (Note 8).....	23,444	22,362
19	Other Current Liabilities.....	393	163
20	Total Current Liabilities.....	27,061	24,484
	Long-Term Debt:		
21	Due to Affiliates (Note 9).....	650,000	650,000
22	Other .....	0	0
23	Deferred Credits (Note 2).....	922	843
24	Other Liabilities (Note 10).....	41,123	41,327
25	Commitments and Contingencies (Note 11)		
26	Total Liabilities.....	719,106	716,654
27	Stockholders', Partners', or Proprietor's Equity.....	328,603	270,909
28	Total Liabilities and Equity.....	\$ 1,047,709	\$ 987,563

The accompanying notes are an integral part of the financial statements.  
Valid comparisons cannot be made without using information contained in the notes.

CCC-205

## STATEMENTS OF INCOME

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003

(UNAUDITED)  
(\$ IN THOUSANDS)

(a) LINE	(b) DESCRIPTION	2004	2003
	<b>Revenue:</b>		
1	Casino .....	\$ 345,604	\$ 339,699
2	Rooms .....	37,617	31,851
3	Food and Beverage .....	41,481	40,437
4	Other .....	6,163	7,902
5	Total revenue .....	430,865	419,889
6	Less: Promotional Allowance (Note 2) .....	105,646	88,408
7	Net revenue .....	325,219	331,481
	<b>Costs and Expenses:</b>		
8	Cost of goods and services .....	161,835	162,757
9	Selling, general, and administrative .....	32,828	26,461
10	Provision for doubtful accounts .....	100	0
11	Total costs and expenses .....	194,763	189,218
12	Gross Operating Profit .....	130,456	142,263
13	Depreciation and amortization .....	25,353	23,024
	Charges from affiliates other than interest:		
14	Management Fees .....	0	0
15	Other (Note 3) .....	9,135	8,869
16	Income (Loss) from Operations .....	95,968	110,370
	<b>Other Income (Expenses):</b>		
17	Interest (expense) - affiliates (Note 9) .....	(39,000)	(39,000)
18	Interest (expense) - external .....	0	0
19	Investment alternative tax and related income (expense) - net .....	(2,511)	(2,392)
20	Nonoperating Income (expense) - net .....	809	368
21	Total other income (expenses) .....	(40,702)	(41,024)
22	Income (Loss) Before Income Taxes and Extraord. Items .....	55,266	69,346
23	Provision (credit) for income taxes (Note 2) .....	7,856	6,358
24	Income (Loss) Before Extraordinary Items .....	47,410	62,988
25	Extraordinary items (net of income taxes - 2004, \$0; 2003, \$0) .....	0	0
26	<b>Net Income (Loss) .....</b>	<b>\$ 47,410</b>	<b>\$ 62,988</b>

The accompanying notes are an integral part of the financial statements.  
Valid comparisons cannot be made without using information contained in the notes.

## STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003

(UNAUDITED)  
(\$ IN THOUSANDS)

(a) LINE	(b) DESCRIPTION	2004	2003
	<b>Revenue:</b>		
1	Casino .....	\$127,913	\$119,743
2	Rooms .....	14,453	12,869
3	Food and Beverage .....	16,095	14,835
4	Other .....	3,020	4,563
5	Total revenue .....	161,481	152,010
6	Less: Promotional Allowance (Note 2) .....	39,776	34,261
7	Net revenue .....	121,705	117,749
	<b>Costs and Expenses:</b>		
8	Cost of goods and services .....	57,979	56,673
9	Selling, general, and administrative .....	12,744	9,432
10	Provision for doubtful accounts .....	35	0
11	Total costs and expenses .....	70,758	66,105
12	Gross Operating Profit .....	50,947	51,644
13	Depreciation and amortization .....	8,801	7,639
	Charges from affiliates other than interest:		
14	Management Fees .....	0	0
15	Other (Note 3) .....	3,237	3,073
16	Income (Loss) from Operations .....	38,909	40,932
	<b>Other Income (Expenses):</b>		
17	Interest (expense) - affiliates (Note 9) .....	(13,000)	(13,000)
18	Interest (expense) - external .....	0	0
19	Investment alternative tax and related income (expense) - net .....	(835)	(928)
20	Nonoperating Income (expense) - net .....	(537)	199
21	Total other income (expenses) .....	(14,372)	(13,729)
22	Income (Loss) Before Income Taxes and Extraord. Items .....	24,537	27,203
23	Provision (credit) for income taxes (Note 2) .....	1,158	2,480
24	Income (Loss) Before Extraordinary Items .....	23,379	24,723
25	Extraordinary items (net of income taxes - 2003, \$0; 2002, \$0) .....	0	0
26	<b>Net Income (Loss) .....</b>	<b>\$23,379</b>	<b>\$24,723</b>

The accompanying notes are an integral part of the financial statements.  
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TRADING NAME OF LICENSEE

HARRAH'S CASINO HOTEL, ATLANTIC CITY

## STATEMENTS OF CHANGES IN PARTNERS' OR PROPRIETOR'S EQUITY

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004  
AND THE TWELVE MONTHS ENDED DECEMBER 31, 2003

(UNAUDITED)  
(\$ IN THOUSANDS)

LINE (a)	Description (b)	Contributed Capital (c)	Accumulated Earnings (Deficit) (d)	(e)	Total Equity (Deficit) (f)
1	Balance, December 31, 2002	\$165,954	\$41,967	\$0	\$207,921
2	Net Income - 2003		73,133		\$73,133
3	Capital Contributions.....				
4	Capital Withdrawals.....		0		\$0
5	Partnership Distributions.....				
6	Prior Period Adjustments.....		139		\$139
7	.....				
8	.....				
9	.....				
10	Balance, December 31, 2003	165,954	115,239	0	281,193
11	Net Income - 2004		47,410		\$47,410
12	Capital Contributions.....				
13	Capital Withdrawals.....		0		\$0
14	Partnership Distributions.....				
15	Prior Period Adjustments.....		0	0	\$0
16	.....				
17	.....				
18	.....				
19	Balance, September 30, 2004	\$165,954	\$162,649	\$0	\$328,603

The accompanying notes are an integral part of the financial statements.  
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TRADING NAME OF LICENSEE

HARRAH'S CASINO HOTEL, ATLANTIC CITY

## STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003

(UNAUDITED)  
(\$ IN THOUSANDS)

(a) LINE	(b) DESCRIPTION	(c) 2004	(d) 2003
1	<b>Net Cash Provided (Used) by Operating Activities</b> .....	\$ 25,557	\$ 19,264
	<b>Cash Flows from Investing Activities:</b>		
2	Purchase of short-term investment securities .....	0	0
3	Proceeds from the sale of short-term investment securities .....	0	0
4	Cash outflows for property and equipment .....	(36,557)	(26,233)
5	Proceeds from disposition of property and equipment .....	12	289
6	Purchase of casino reinvestment obligations .....	(4,091)	(4,172)
7	Purchase of other investments and loan advances made .....	0	0
8	Proceeds from disposal of investments and collection of advances and long-term receivables .....	2,277	2,069
9	Cash outflows to acquire business entities .....	0	0
10	Write Off Abandoned Projects .....	0	0
11		0	0
12	<b>Net Cash Provided (Used) by Investing Activities</b> ..	(38,359)	(28,047)
	<b>Cash Flows from Financing Activities:</b>		
13	Cash proceeds from issuance of short-term debt .....	0	0
14	Payments to settle short-term debt .....	0	0
15	Cash proceeds from issuance of long-term debt .....	0	0
16	Costs of issuing debt .....	0	0
17	Payments to settle long-term debt .....	0	0
18	Cash proceeds from issuing stock or capital contributions .....	0	0
19	Purchases of treasury stock .....	0	0
20	Payments of dividends or capital withdrawals .....	0	0
21	Transfer to Affiliates .....	0	0
22			
23	<b>Net Cash Provided (Used) by Financing Activities</b> .....	0	0
24	<b>Net Increase (Decrease) in Cash and Cash Equivalents</b> .....	(12,802)	(8,783)
25	<b>Cash and Cash Equivalents at Beginning of Period</b> .....	43,117	38,972
26	<b>Cash and Cash Equivalents at End of Period</b> .....	\$ 30,315	\$ 30,189
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>			
	<b>Cash Paid During Period for:</b>		
27	Interest (net of amount capitalized) .....	\$ 0	\$ 60,811
28	Income Taxes .....	\$ 7,907	\$ 5,502

The accompanying notes are an integral part of the financial statements.  
Valid comparisons cannot be made without using information contained in the notes.

TRADING NAME OF LICENSEE

HARRAH'S CASINO HOTEL, ATLANTIC CITY

## STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003

(UNAUDITED)  
(\$ IN THOUSANDS)

(a) LINE	(b) DESCRIPTION	(c) 2004	(d) 2003
	<b>Net Cash Flows From Operating Activities:</b>		
29	Net Income (loss) .....	\$ 47,410	\$ 62,988
	Noncash items included in income and cash items excluded from income:		
30	Depreciation and amortization of property & equipment .....	25,351	22,975
31	Amortization of other assets .....	2	40
32	Amortization of debt discount or premium .....	0	0
33	Deferred income taxes - current .....	0	0
34	Deferred income taxes - noncurrent .....	0	(39)
35	(Gain) loss on disposition of property & equipment .....	32	(125)
36	(Gain) loss on casino reinvestment obligation .....	0	0
37	(Gain) loss from other investment activities .....	0	0
38	Net (increase) decrease in receivables and patrons checks .....	(1,346)	46
39	Net (increase) decrease in inventories .....	300	(20)
40	Net (increase) decrease in other current assets .....	(397)	(2,937)
41	Net (increase) decrease in other assets .....	1,513	1,374
42	Net increase (decrease) in accounts payables .....	1,605	48
43	Net increase (decrease) in other current liabilities excluding debt .....	2,791	(63,362)
44	Net increase (decrease) in other noncurrent liabilities excluding debt .....	(209)	(817)
45	Net (increase) in other receivables or advances .....	(51,495)	(907)
46			
47	<b>Net Cash Provided (Used) by Operating Activities .....</b>	<b>\$ 25,557</b>	<b>\$ 19,264</b>
	<b>SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION</b>		
	<b>Aquisition of Property and Equipment:</b>		
48	Additions to property and equipment .....	\$ 36,557	\$ 26,233
49	Less: capital lease obligations incurred .....	0	0
50	<b>Cash Outflows for Property and Equipment .....</b>	<b>\$ 36,557</b>	<b>\$ 26,233</b>
	<b>Acquisition of Business Entities:</b>		
51	Property and equipment acquired .....	\$	\$
52	Goodwill Acquired .....		
53	Net assets acquired other than cash, goodwill, and property and equipment .....		
54	Long-term debt assumed .....		
55	Issuance of stock or capital invested .....		
56	<b>Cash Outflows To Acquire Business Entities .....</b>	<b>\$</b>	<b>\$</b>
	<b>Stock Issued or Capital Contributions:</b>		
57	Total issuance of stock or capital contributions .....	\$	\$
58	Less: issuances to settle long-term debt, and .....		
59	Consideration in acquisition of business entities .....		
60	<b>Cash Proceeds from Issuing Stock or Capital Contributions .....</b>	<b>\$</b>	<b>\$</b>

The accompanying notes are an integral part of the financial statements.  
Valid comparisons cannot be made without using information contained in the notes.



2/8/05

TRADING NAME OF LICENSEE HARRAH'S CASINO HOTEL, ATLANTIC CITY

# SCHEDULE OF PROMOTIONAL EXPENSES AND ALLOWANCES

(\$ IN THOUSANDS)

Revised - 02/08/05

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004

Line (a)	(b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	373,077	\$ 32,495	-	\$ -
2	Food	1,563,300	15,633	-	-
3	Beverage	4,788,000	11,970	-	-
4	Travel	-	-	58,081	5,750
5	Bus Program Cash	20,900	209	-	-
6	Other Cash Complimentaries	3,481,360	43,517	-	-
7	Entertainment	49,600	992	-	-
8	Retail & Non-Cash Gifts	166,000	830	264,195	1,321
9	Parking	-	-	-	-
10	Other	-	-	-	-
11	Total	10,442,237	\$ 105,646	322,276	\$ 7,071

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2004

Line (a)	(b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	137,428	\$ 11,970	-	\$ -
2	Food	624,900	6,249	-	-
3	Beverage	1,808,000	4,520	-	-
4	Travel	-	-	20,953	2,074
5	Bus Program Cash	20,900	209	-	-
6	Other Cash Complimentaries	1,247,760	15,597	-	-
7	Entertainment	46,950	939	-	-
8	Retail & Non-Cash Gifts	58,400	292	100,357	502
9	Parking	-	-	-	-
10	Other	-	-	-	-
11	Total	3,944,338	\$ 39,776	121,310	\$ 2,576



**HARRAH'S CASINO HOTEL ATLANTIC CITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**(Unaudited)**  
**(Dollars in Thousands)**

**NOTE 1 - ORGANIZATION AND BASIS OF PRESENTATION**

Marina Associates and Subsidiary (the "Partnership") operates as a General Partnership and owns and operates a casino hotel resort located in the Marina District of Atlantic City, New Jersey known as Harrah's Casino Hotel Atlantic City. The Partnership is an indirect, wholly-owned subsidiary of Harrah's Operating Company, Inc. ("HOC"), which is a direct wholly-owned subsidiary of Harrah's Entertainment, Inc. ("Harrah's"). A substantial portion of the Partnership's revenues is derived from gaming and supporting hotel operations.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Principles of Consolidation** - The accompanying consolidated financial statements include the account balances of the Partnership and its wholly-owned subsidiary, Reno Crossroads LLC ("Reno"). As a result, all material intercompany transactions and balances have been eliminated in consolidation.

**Allowance for Doubtful Accounts** - The Partnership reserves an estimated amount for receivables that may not be collected. The methodology for estimating the allowance includes using specific reserves and applying various percentages to aged receivables. Historical collection rates are considered, as are customer relationships, in determining specific allowances. As with many estimates, management must make judgments about potential actions by third parties in establishing and evaluating the allowance for bad debts.

**Inventories** - Inventories of provisions and supplies are valued at the lower of cost, weighted average, or market.

**Land, Buildings and Equipment** - Land, buildings, and equipment are stated at cost, including capitalized interest on intercompany funds used to finance construction calculated at Harrah's overall weighted-average borrowing rate of interest.

Improvements and repairs that extend the life of the asset are capitalized. Building improvements are depreciated over the remaining life of the building. Maintenance and repairs are expensed as incurred.

Depreciation is provided using the straight-line method over the shorter of the estimated useful life of the asset or the related lease term, as follows:

Land improvements	12 years
Buildings and improvements	30 to 40 years
Furniture, fixtures and equipment	3 to 12 years

**HARRAH'S CASINO HOTEL ATLANTIC CITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**(Unaudited)**  
**(Dollars in Thousands)**

With the January 1, 2002 adoption of Statement of Financial Accounting Standards ("SFAS") No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the Partnership reviews the carrying value of land, buildings and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of the asset. The factors considered by the Partnership in performing this assessment include current operating results, trends and prospects, as well as the effect of obsolescence, demand, competition and other economic factors.

**Investments in Subsidiaries** - During 1999, the Partnership, through its wholly owned subsidiary Reno Crossroads LLC ("Reno"), acquired a parcel of land in Reno, Nevada for approximately \$10,325. The existing facilities located on the parcel site were demolished and a new plaza was constructed on the site at a cost of approximately \$2,365. On February 1, 2000, Reno entered into an agreement to lease this parcel of land to HOC for a period of twenty years at a fixed rent of \$1,120 per year.

**Financial Instruments** - The carrying amount of receivables and all current liabilities approximates fair value due to their short-term nature. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties. After giving effect to their allowances, the Casino Reinvestment Development Authority ("CRDA") bonds and deposits approximately reflect their fair value based upon their below market interest rates. The carrying amount of long-term debt is estimated to approximate its fair value as the stated rates approximate current rates

**CRDA Real Estate Project** - The Partnership's investment in its CRDA real estate project (the "Project") consists of various townhomes, an apartment building and a retail store outlet in the northeast section of Atlantic City, NJ. Based upon an agreement with the CRDA, the Partnership may sell certain parts of the Project and will operate certain other parts for a period of up to 20 years.

Income or loss from the operation of the Project is included in the results of operations. Buildings are being depreciated using the straight-line method based on an estimated useful life of 27.5 years.

**Revenue Recognition** - Casino revenues consist of the net win from gaming activities, which is the difference between gaming wins and losses. Food, beverage, rooms and other revenues include the aggregate amounts generated by those departments.

**Promotional Allowances** - Gross revenues include the retail value of complimentary food, beverage, theater and hotel services furnished to patrons. The retail value of these promotional allowances is deducted to arrive at net revenues. The estimated cost of providing complimentary services and cash rebates to customers for the three months ended September 30, 2004 and 2003, respectively, were as follows:

	<u>2004</u>	<u>2003</u>
Food and beverage	\$ 6,926	\$ 5,947
Rooms	3,667	3,801
Other	<u>1,569</u>	<u>1,538</u>
	<u>\$ 12,162</u>	<u>\$ 11,286</u>

**HARRAH'S CASINO HOTEL ATLANTIC CITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**(Unaudited)**  
**(Dollars in Thousands)**

**Income Taxes** - The accompanying consolidated financial statements do not include a provision for federal income taxes, since any income or losses allocated to the partners are reportable for federal income tax purposes by each partner.

In accordance with regulations prescribed by the New Jersey Casino Control Act, the Partnership files a state income tax return on behalf of the partners. Accordingly, the accompanying consolidated financial statements include a provision for state income taxes.

Deferred tax assets and liabilities represent the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in existing tax rates is recognized as an increase or decrease to the tax provision in the period that includes the enactment date.

**Disclosures** - In accordance with the Quarterly Report Instructions, the Partnership has not submitted updated information for the summary of future lease obligations and contribution of savings and retirement plan in which employees of the Partnership may participate. There has been no significant changes to the information submitted in our December 31, 2003 Annual Report.

**Use of Estimates** - The preparation of these financial statements in conformity with generally accepted accounting principles requires the Partnership to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates.

**Casino Licensing** - The Partnership is licensed to operate the facility by the New Jersey Casino Control Commission (the "CCC") and is subject to rules and regulations established by the CCC. The Partnership's license is subject to renewal every four years with the current license expiring in April 2008.

**Reclassifications** - Certain prior year balances have been reclassified to conform to the current year presentation.

### **NOTE 3 - RELATED PARTY TRANSACTIONS**

The Partnership participates with HOC and its other subsidiaries in marketing, purchasing, insurance, employee benefit and other programs that are defined and negotiated by HOC on a consolidated basis. The Partnership believes that participating in these consolidated programs is beneficial in comparison to the terms for similar programs that it could negotiate on a stand-alone basis.

Certain of the more significant intercompany relationships between the Partnership and HOC are discussed in this footnote.

**Cash Activity with HOC and Affiliates** - The Partnership transfers cash in excess of its operating and regulatory needs to HOC on a daily basis. Cash transfers from HOC to the Partnership are also made based

**HARRAH'S CASINO HOTEL ATLANTIC CITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**(Unaudited)**  
**(Dollars in Thousands)**

upon the needs of the Partnership to fund daily operations, including accounts payable and payroll, as well as capital expenditures. No interest is earned on the amount shown as due from affiliates, net, in the accompanying consolidated financial statements.

**Administrative and Other Services** - The Partnership is charged a fee by HOC for administrative and other services (including consulting, legal, marketing, information technology, accounting and insurance). The Partnership was charged \$3,237 and \$3,073 for these services for the three months ended September 30, 2004 and 2003, respectively. The fee is included in general and administrative expenses in the accompanying consolidated statements of income.

**NOTE 4 - PREPAID EXPENSES AND OTHER CURRENT ASSETS**

Prepaid Expenses and Other Current Assets as of September 30 consisted of the following:

	<u>2004</u>	<u>2003</u>
Prepaid Taxes	\$ 1,605	\$ 1,646
Prepaid State Income Tax	2,727	2,105
Prepaid Insurance	285	386
Prepaid Air Charters	2,003	1,830
Prepaid Marketing	873	960
Prepaid Other	469	648
	<u>\$ 7,962</u>	<u>\$ 7,575</u>

**NOTE 5 - INVESTMENTS, ADVANCES AND RECEIVABLES**

Investments, Advances and Receivables as of September 30, consisted of the following:

	<u>2004</u>	<u>2003</u>
Notes Receivable	\$ 0	\$ 253
Casino Reinvestment Development Authority Bonds - Net of Valuation Allowance of \$3,777 and \$3,047 at September 30, 2004 and 2003, respectively	4,235	2,294
Casino Reinvestment Development Authority obligation deposits - Net of Valuation Allowance of \$1,123 and \$1,531 at September 30, 2004 and 2003, respectively	8,423	6,618
Due from Affiliates	480,218	434,145
Other	0	253
	<u>\$492,876</u>	<u>\$443,563</u>

**HARRAH'S CASINO HOTEL ATLANTIC CITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**(Unaudited)**  
**(Dollars in Thousands)**

Due from Affiliates as of September 30 consisted of the following unsecured, non-interest bearing intercompany amounts:

	<u>2004</u>	<u>2003</u>
Harrah's New Jersey, Inc.	\$ 18,962	\$ 18,962
I/C- Embassy Suites	437,553	394,204
Northeast Regional Office	5,218	6,112
Harrah's Lake Tahoe	132	132
Embassy Suites, Inc.	1,940	1,940
Harrah's Del Rio	185	185
Harrah's Reno	5,005	3,899
Harrah's Las Vegas	55	55
Bill's Casino	111	111
Harrah's Vicksburg	23	23
Harrah's Joliet	346	345
Harrah's New Orleans	1	1
Harrah's Shreveport	23	14
Harrah's St. Louis	74	74
Harrah's North Kansas City	47	43
Harrah's Cherokee	720	719
Harrah's Prairie Band	24	21
Showboat Atlantic City	9,010	6,545
Harrah's Tunica	6	6
Harrah's Ak Chin	14	14
Harrah's East Chicago	655	628
Harvey's	67	65
Harrah's Gold Card	47	47
	<u>\$480,218</u>	<u>\$434,145</u>

**NOTE 6 – LAND, BUILDINGS AND EQUIPMENT**

Land, Buildings and Equipment as of September 30 consisted of the following:

	<u>2004</u>	<u>2003</u>
Land and Land Improvements	\$ 75,001	\$ 72,600
Buildings, Leaseholds and Improvements	538,407	518,160
Furniture, Fixtures and Equipment	189,215	186,416
Construction in Progress	<u>8,760</u>	<u>10,760</u>
	811,383	787,936
Less Accumulated Depreciation	<u>(311,958)</u>	<u>(299,769)</u>
Property and Equipment, Net	<u>\$499,425</u>	<u>\$488,167</u>

**HARRAH'S CASINO HOTEL ATLANTIC CITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**(Unaudited)**  
**(Dollars in Thousands)**

**NOTE 7 - OTHER ASSETS**

Other Assets as of September 30 consisted of the following:

	<u>2004</u>	<u>2003</u>
Deposits	\$ 41	\$ 57
Deferred Other	15	18
Long-term Portion of Prepaid Insurance	99	128
Long-term Portion of Prepaid Other	8	-
Deferred and Prepaid CRDA Obligations	<u>8,519</u>	<u>10,499</u>
	<u>\$ 8,682</u>	<u>\$10,702</u>

**NOTE 8 - OTHER ACCRUED EXPENSES**

Other Accrued Expenses as of September 30 consisted of the following:

	<u>2004</u>	<u>2003</u>
Accrued Salaries, Wages and Benefits	\$7,522	\$ 6,174
Taxes Payable	2,722	2,824
Accrued In-House Progressive Slot Liability	197	280
Accrued City Wide Progressive Slot Liability	458	403
Accrued Interest, Long-term debt	4,333	4,333
Accrued Casino Control Commission / Department		
Gaming Enforcement Casino License Fees	691	955
Other Accrued Expenses	<u>7,521</u>	<u>7,393</u>
	<u>\$23,444</u>	<u>\$22,362</u>

**NOTE 9 - LONG-TERM DEBT**

Long-term Debt as of September 30 consisted of the following:

	<u>2004</u>	<u>2003</u>
Promissory Note	<u>\$650,000</u>	<u>\$650,000</u>

On October 31, 2001, the Partnership and HOC consummated a promissory note for \$650,000. All principal and interest outstanding on the promissory note is due and payable on demand to HOC. Interest is computed on an annual basis using 360 days for the actual number of days elapsed during a year, and an annual rate of 8%. Any amount of principal not paid by the Partnership to HOC when due will bear an additional 2% annual interest rate. As of September 30, 2004 and 2003, there was accrued interest of \$4,333, on the balance sheet related to the intercompany note. On March 12, 2003 the 8% Promissory Note was assigned to Harrah's Entertainment Limited. Neither the term nor the amount of the debt was affected by this assignment.

**HARRAH'S CASINO HOTEL ATLANTIC CITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**(Unaudited)**  
**(Dollars in Thousands)**

**NOTE 10 - OTHER LIABILITIES**

Other Liabilities as of September 30 consisted of the following:

	<u>2004</u>	<u>2003</u>
Due to Affiliates, Long-term	\$39,806	\$39,752
Other	<u>1,317</u>	<u>1,575</u>
	<u>\$41,123</u>	<u>\$41,327</u>

Due to Affiliates at September 30 consisted of the following unsecured, non-interest bearing inter-company accounts:

	<u>2004</u>	<u>2003</u>
Harrah's Holdings, Inc.,	\$ 603	\$ 603
Harrah's Atlantic City, Inc.	38,855	38,855
Harrah's Jazz Casino	55	1
Harrah's Holiday Inns of New Jersey, Inc.	<u>293</u>	<u>293</u>
	<u>\$39,806</u>	<u>\$39,752</u>

**NOTE 11 - COMMITMENTS AND CONTINGENCIES**

**Litigation** - The Partnership is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, these matters will not have a material effect on the Partnership's financial position or results of operations.

**Insurance Reserve** - The Partnership is self-insured for various levels of general liability coverage. Insurance claims and reserves include the accrual of estimated settlements for known and anticipated claims. Accrued expenses and other current liabilities in the accompanying balance sheets includes insurance allowances of \$246 and \$427 as of September 30, 2004 and 2003, respectively. Actual results may differ from these reserve amounts.

**CRDA Investment Obligation** - The New Jersey Casino Control Act provides, among other things, for an assessment of licensees equal to 1.25% of their gross gaming revenues in lieu of an investment alternative tax equal to 2.5% of gross gaming revenues. The Partnership may satisfy this investment obligation by investing in qualified eligible direct investments, by making qualified contributions or by depositing funds with the CRDA. Funds deposited with the CRDA may be used to purchase bonds designated by the CRDA or, under certain circumstances, may be donated to the CRDA in exchange for credits against future CRDA investment obligations. CRDA bonds have terms up to 50 years and bear interest at below market rates. The Partnership includes CRDA investment bonds and funds on deposit in deferred charges and other non-current assets in the accompanying balance sheets totaling \$4,235 and \$8,423, respectively, at September 30, 2004 and \$2,294 and \$6,618, respectively, at September 30, 2003. The Partnership records charges to operations to reflect the estimated net realizable value of its CRDA investment.



**HARRAH'S CASINO HOTEL ATLANTIC CITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**(Unaudited)**  
**(Dollars in Thousands)**

To satisfy current Atlantic City obligations as well as those projected beyond the year 2003, the Partnership received approval from the CRDA for a qualified direct investment project to construct various townhomes, an apartment building and a retail store outlet in the northeast section of Atlantic City ("CRDA real estate project") at an estimated cost to the Partnership of approximately \$54,573. As of September 30, 2004 and 2003, approximately \$8,519 and \$10,499, respectively, represents a prepayment of the Partnership's future obligations to the CRDA related to the CRDA real estate project. The prepaid asset is being amortized over the related Atlantic City obligation period and is included in deferred charges and other non-current assets in the accompanying balance sheets.

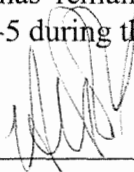
The Partnership has committed \$11,986 of its current and future CRDA deposit obligations for the refurbishment of the Atlantic City Convention Center. The amount was to be amortized on a straight-line basis over a 15-year period commencing September 2001. At September 30, 2004 and 2003, approximately \$497 and \$1,070, respectively, of additional funds have been earmarked for the refurbishment and included in the deferred charges and other noncurrent assets balance on the balance sheets.

**HARRAH'S CASINO HOTEL ATLANTIC CITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**(Unaudited)**  
**(Dollars in Thousands)**

**STATEMENTS OF CONFORMITY, ACCURACY AND COMPLIANCE**

***Reclassifications*** - Certain prior year balances have been reclassified to conform to the current year presentation.

1. I have examined this Quarterly Report.
2. All the information contained in this Quarterly Report has been prepared in conformity with Casino Control Commission's Quarterly Report Instructions and Uniform Chart of Accounts.
3. To the best of my knowledge and belief, the information contained in this Quarterly Report is accurate.
4. To the best of my knowledge and belief, except for the deficiencies noted below, the licensee submitting this Quarterly Report has remained in compliance with the financial stability regulations contained in N.J.A.C. 19:43-4.2(b)1-5 during the quarter.

  
\_\_\_\_\_  
Signature

Vice President of Finance and Administration  
Title

002895-11  
License Number

On Behalf of:

Marina Associates  
Casino Licensee

CCC-249